

SUBCOMMITTEE NO. 4

Agenda

Michael Machado, Chair
Robert Dutton
Christine Kehoe



Hearing Outcomes

(Senators in attendance were Machado and Kehoe, so 2-0 votes reflect the votes of those Senators)

Monday, March 24, 2008
10:00 a.m.
Room 3191

Consultants: Brian Annis

<u>Item</u>	<u>Department</u>	<u>Page</u>
Proposed Vote-Only Calendar		
1110 - 1111	Consumer Affairs-(Board & Bureaus without Budget Change Proposals (BCPs))	1
1110 - 1111	Consumer Affairs-(Board & Bureaus with non-controversial BCPs).....	2
0510	Secretary for State and Consumer Services	5
2120	Alcoholic Beverage Control Appeals Board.....	6
2700	Office of Traffic Safety	6
8260	California Arts Council	7
	Section 14.00 – Special Fund Loans - Department of Consumer Affairs	7
Discussion Items		
1100	California Science Center.....	8
1110	Contractors' State Licensing Board	10
8780	Milton Marks "Little Hoover" Commission.....	12
8820	Commission on the Status of Women	13
2100	Department of Alcoholic Beverage Control	14
2150	Department of Financial Institutions	16
2180	Department of Corporations	18
2400	Department of Managed Health Care	20
2740-2720	Crosscutting: Departments of Motor Vehicles and Highway Patrol	22
2740	Department of Motor Vehicles.....	24
2720	Department of the California Highway Patrol	32

Department Budgets Proposed for Vote Only

(See consolidated vote-only recommendation and vote on page 7)

1110 & 1111 Select Regulatory Boards, Bureaus, Programs, Divisions within the Department of Consumer Affairs

Note: Boards and Bureaus with sunset issues are left off this agenda with the intent they will be heard at a subsequent hearing after related policy bills are enrolled. These are the Board of Barbering and Cosmetology, the Dental Board of California, the Speech-Language Pathology and Audiology Board, the Board of Vocational Nursing and Psychiatric Technicians of the State of California, and the Bureau for Private Postsecondary Education.

- (1) **Boards/Bureaus without Budget Change Proposals (BCPs):** The Administration did not submit BCPs for the following entities. No Board or Bureau listed below receives General Fund support. (Dollars are in 1,000s)

		Positions		Expenditures	
		2007-08	2008-09	2007-08	2008-09
<u>Boards and Commissions - Organization Code 1110</u>					
(1a)	Accountancy, CA Board of	84.5	84.5	\$12,410	\$12,729
(1b)	Architects Board	23.5	23.5	4,230	4,384
(1c)	State Athletic Commission	14.2	14.2	2,168	2,100
(1d)	Geologists and Geophysicists, Board for	9.6	9.6	1,311	1,369
(1e)	Guide Dogs for the Blind, Board	1.3	1.3	165	168
(1f)	Medical Board	259.4	247.0	52,699	51,983
(1g)	Acupuncture Board	8.5	8.5	2,653	2,537
(1h)	Physical Therapy Board	10.8	10.8	2,457	2,403
(1i)	Podiatric Medicine, California Board of	5.1	5.1	1,355	1,312
(1j)	Psychology, Board of	12.7	12.7	3,432	3,462
(1k)	Respiratory Care Board of CA	16.2	16.2	2,903	2,953
(1l)	Occupational Therapy, CA Board	6.5	6.5	1,046	1,087
(1m)	Pharmacy, CA State Board of	50.5	50.5	9,729	9,977
(1n)	Registered Nursing, Board of	93.9	93.9	24,092	24,219
(1o)	Veterinary Medical Board	10.0	10.0	2,266	2,494

	Bureaus, Programs, Divisions - Organization Code 1111				
(1p)	Electronic & Appliance Repair, Bureau of	14.5	14.5	\$2,343	\$2,423
(1q)	Telephone Medical Advice Services Program	0.9	0.9	161	150
(1r)	Cemetery & Funeral Bureau	22.5	22.5	4,061	4,187
(1s)	Hearing Aid Dispensers Bureau	3.8	3.8	776	770
(1t)	Naturopathic Medicine, Bureau	0.9	0.9	154	128
(1u)	Professional Fiduciaries Bureau	3.8	3.8	649	609

Staff Recommendations: Approve these budgets.

- (2) Boards/Bureaus with Budget Change Proposals (BCPs):** The Administration submitted BCPs for the following Boards and Bureaus that make minor adjustments to funding and staff primarily in response to workload and cost changes. None of the entities listed below receive General Fund support. No concerns have been raised to Staff concerning budget changes for these entities. A brief description of the Budget Change Proposal is included under each Board or Bureau. Note, most of these augmentations support core workload functions and delays in licensing or consumer-protection investigations could result if the requests are denied.

		Positions		Expenditures	
		2007-08	2008-09	2007-08	2008-09
	Boards and Commissions - Organization Code 1110				
	Behavioral Sciences, Board of	32.2	35.5	\$5,821	\$6,373
(2a)		Augmentation of \$60,000 and redirection of \$33,000 from temporary help to add 1.0 Office Technician and 0.5 Office Assistant for workload increases. (BCP 1110-03)			
(2b)		Augmentation of \$208,000 to add 2.0 Associate Government Program Analysts for enforcement workload. (BCP 1110-01)			
(2c)		Augmentation of \$200,000 (two-year limited term) to hire consultants to perform examination development and provide policy expertise to fulfill the requirements of the Mental Health Services Act (MHSA) Proposition 63. (BCP 1110-04).			

		Positions		Expenditures	
		2007-08	2008-09	2007-08	2008-09
	Physician Assistant Committee	4.4	4.9	1,184	1,211
(2d)		Augmentation of \$35,000 and 0.5 positions (two-year limited term) to address new licensing requirements implemented by AB 3 (Ch 376, St of 2007, Bass) for physician assistants. (BCP 1110-03L)			
	Optometry, State Board of	6.8	7.7	1,205	1,500
(2e)		Augmentation of \$157,000 (one time) to contract with the Department of Consumer Affairs for Occupational analysis, exam validation, and audit of the national exam. (BCP 1110-18)			
(2f)		Augmentation of \$85,000 and 1.0 Staff Services Analyst for customer service workload. (BCP 1110-17)			
	Osteopathic Medical Board	4.5	6.9	1,276	1,408
(2g)		Augmentation of \$91,000 and redirection of \$49,000 to add 2.5 positions to address workload growth. (BCP 1110-19)			
	Professional Engineers and Land Surveyors, Board for	53.0	53.5	\$9,179	\$9,436
(2h)		Redirection of operating expense funding of \$24,000 to add 0.5 position to address enforcement and exam workload. (BCP 1110-20)			
	Court Reporters Board of California	4.5	4.5	1,171	1,242
(2i)		Augmentation of \$45,000 (one time) to cover the lump sum retirement of the Executive Officer and avoid the necessary to hold the position vacant for an extended period. (BCP 1110-24)			
(2j)		Augmentation of \$55,000 (limited-term) to contract with the Department of Consumer Affairs for three exam validation studies. (BCP 1110-23)			
	Structural Pest Control Board	28.3	29.2	5,003	4,930
(2k)		Redirection of \$91,000 in operating expenses to add 1.0 position to address enforcement workload. (BCP 1110-25)			
	Bureaus, Programs, Divisions - Organization Code 1111				
	Arbitration Certification Program	5.7	7.6	\$1,033	\$1,126
(2l)		Augmentation of \$88,000 and 2.0 positions to			

		Positions		Expenditures	
		2007-08	2008-09	2007-08	2008-09
		improve the State's administration of vehicle "lemon laws." (BCP 1111-08)			
	Security and Investigative Services, Bureau of	65.9	51.7	\$11,059	\$11,843
(2m)		Reduction of \$791,000 and 15.0 positions due to lower-than-anticipated workload from SB 194 (Ch 655, St of 2005, Maldonado), which added proprietary private security to the oversight of the Bureau. Applications have been only 7 percent of the expected level. (BCP 1111-12)			
	Home Furnishings & Thermal Insulation, Bureau of	30.4	30.4	\$4,660	\$4,797
(2n)		Augmentation of \$120,000 for moving costs and a facility lease increase. (BCP 1111-04)			
	Automotive Repair, Bureau	598.5	606.6	169,226	183,955
(2o)		Augmentation of \$399,000 and 4.5 positions to implement AB 1488 (Ch 739, St. of 2007, Mendoza), which expanded the types of vehicles subject to the Smog Check Program. (BCP 1111-01L)			
		Augmentation of \$600,000 for moving costs and a facility lease increase. (BCP 1111-09)			
	Centralized Department of Consumer Affairs Administration	584.9	605.6	68,263	71,249
(2p)		Augmentation of \$1.2 million and 5.0 positions to continue the implementation of the iLicensing information technology project that the Legislature approved in 2006-07. (BCP 1111-02)			
(2q)		Augmentation of \$309,000 and 7.0 positions to address workload growth in cashiering so that applications and renewal of licensees is not delayed. (BCP 1111-03)			
(2r)		Augmentation of \$224,000 and 2.0 positions to address internet workload so that consumers and licenses have access to timely updates on applications, exams, and consumer resources. (BCP 1111-06)			
(2s)		Redirection of operating expenses to add 2.0 positions in the Office of Information Services to support the needs of contracting boards and bureaus. (BCP 1111-10)			

		Positions		Expenditures	
		2007-08	2008-09	2007-08	2008-09
(2t)		Augmentation of \$382,000 and 4.5 positions to address the workload needs contracted by boards and bureaus in the areas of budgeting, personnel, and business services. (BCP 1111-05)			

Staff Recommendations: Approve these budgets.

(3) 0510 Secretary for State and Consumer Services

The State and Consumer Services Agency oversees the departments of Consumer Affairs, Fair Employment and Housing, and General Services. The Agency also oversees the California Science Center, the Franchise Tax Board, the California Building Standards Commission, the State Personnel Board, the California Public Employees' Retirement System, the California State Teachers' Retirement System, the Victims Compensation and Government Claims Board, and the Office of the Insurance Advisor.

The Governor proposes expenditures of \$3.4 million (\$2.8 million General Fund) and 22.7 positions for the Agency – an increase of \$1.1 million and 6.9 positions. The change is primarily due to two factors: (1) last year the Legislature approved a statewide information technology restructuring plan that resulted in two existing entities being merged and added to the Agency – the Office of Privacy Protection (at the Department of Consumer Affairs) and the Information Security Office (at the Department of Finance). The new Office is called the Office of Information Security and Privacy Protection (OISPP) and was effective January 1, 2008. \$1.2 million is added to the 2008-09 budget for the full year implementation. (2) The Governor proposes a cut of \$306,000 to the overall Agency budget to help balance the General Fund. The Administration did not submit any Budget Change Proposals for the Agency.

The Agency indicates the proposed reduction would be split with \$92,000 cut from the base Agency, and \$214,000 cut from the OISPP, which is proportional relative to the base budget of each, and that this reduction would come out of operating expenses instead of personnel services. Staff has asked the Administration to sub-schedule the OISPP in next year's Governor's Budget to provide additional fiscal detail, and the Administration indicates it has no objections.

Staff Recommendations: Approve the budget, including the budget reduction.

(4) 2120 Alcoholic Beverage Control Appeals Board

The Alcoholic Beverage Control Appeals Board consists of three members appointed by the Governor. The Board provides a forum of appeal to persons who are dissatisfied with the Department of Alcoholic Beverage Control's decision to order penalties or issue, deny, condition, transfer, suspend, or revoke any alcoholic beverage license. Following the filing of an appeal, and submission of written briefs, the Board hears oral arguments in Northern and Southern California on the appropriateness of the Department's decision. The Board then prepares, publishes, and distributes a formal written opinion. A party seeking review of an Appeals Board decision must file a petition for writ of review with the Court of Appeals.

The Governor proposes total expenditures of \$1.1 million (no General Fund) and 8.8 positions for the ABC Appeals Board – an increase of \$17,000 and no change in positions. The Administration did not submit any Budget Change Proposals for the ABC Appeals Board. No reductions are proposed for the Board, because it does not receive any General Fund support, nor is any of the Board's special fund revenue fungible to the General Fund.

Staff Recommendations: Approve the budget.

(5) 2700 Office of Traffic Safety

The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to State and local entities to promote traffic safety.

The Governor proposes total expenditures of \$96.3 million (no General Fund) and 34.0 positions – a decrease of \$99,000 and no change in positions from the current year. The Administration did not submit any Budget Change Proposals for OTS.

Staff Recommendations: Approve the budget.

(6) 8260 California Arts Council

The Arts Council serves the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community.

The Governor proposes expenditures of \$5.6 million (\$1.1 million General Fund) and 19.3 positions for the Arts Council – an increase of \$245,000. This change is primarily due to two factors: (1) the Administration submitted one Budget Change Proposal – an ongoing \$335,000 increase from the Graphic Design License Plate Account to increase grants to local art agencies; and (2) an ongoing budget cut of \$125,000 to help close the State's General Fund deficit. The cut would result in a statutory position being held vacant, operating expense reductions, and a reduction in General Fund grants for local art projects.

Staff Recommendations: Approve the budget, including the budget reduction.

(7) Control Section 14.00 Department of Consumer Affairs Loans

Control Section 14.00 authorizes short-term loans (not to exceed 18 months) between special funds within the Department of Consumer Affairs. No loan can be made that would interfere with the carrying out of the object for which the special fund was created.

Staff Recommendations: Approve the Control Section.

Consolidated Staff Recommendation on Vote-Only Calendar: Approved the proposed budgets for all the entities listed above, including proposed budget reductions.

Action: <i>All issues on the Vote-Only calendar were approved on a 2 – 0 vote.</i>

Department Budgets Proposed for Discussion

1100 California Science Center

The California Science Center is an educational, scientific, and technological center located in Exposition Park, a 160-acre tract in south Los Angeles. The California African American Museum (CAAM), also included in the park, provides exhibitions and programs on the history, art, and culture of African Americans. In addition, the Office of the Park Manager is responsible for maintenance of the park, public safety, and parking facilities.

The Governor proposes expenditures of \$24.5 million (\$18.7 million General Fund) and 180.3 positions for the Science Center – a total increase of \$1.1 million (and a General Fund increase of \$1.1 million) and no net change in positions. This change is primarily due to two factors: (1) the year-two ramp-up of \$2.6 million for operations of the new Phase II Science Center Facility (pursuant to a multi-year Budget Change Proposal (BCP) adopted last year); and (2) an ongoing budget cut of \$1.7 million to help close the State's General Fund deficit which would result in cuts to both the Science Center facility and CAAM.

Proposed Vote-only / Consent Issues

- 1. Science Center Budget Reduction.** The Science Center received approval of a multi-year BCP last year that grew the 2007-08 budget by \$1.9 million (and 4.5 positions) and grew the 2008-09 budget by an additional \$2.6 million (and 11.4 positions) related to start-up costs for the Phase II facility that will open to the public in late 2009. The 2008-09 increase is partially offset by the proposed budget reduction of \$1.5 million. The Science Center indicates they would still proceed with the planned opening of the Phase II facility, but would reduce the number of custodians for the overall facility by 8 and reduce 3 administrative positions. However, with the workload staffing increase, the net change in staffing is zero.
- 2. California African American Museum (CAAM) Reduction.** The CAAM received approval of a multi-year BCP last year that augmented its budget by \$399,000 for "critical operating, technology and baseline education collection, program and exhibition costs." That increase, which CAAM indicates was their first increase in six years, would be partially offset by the proposed 2008-09 reduction of \$249,000. According to CAAM, that reduction would result in: fewer public exhibitions and programs; delays in the upgrading and maintenance of administrative equipment and systems the website and virtual reality access for the public; and possible reduction in operating personnel support.

Staff Recommendation: Approve the requested budget reductions.

Action: Approved the vote-only issues on a 2 – 0 vote, also approved action to conform to the Assembly by moving budget bill language to trailer bill language.

Discussion / Vote Issues**3. CAAM Facility Renovation and Expansion Project – Working Drawings (BCP).**

The Administration requests an augmentation of \$2.1 million in 2008-09 to complete working drawings for the renovating and expansion of the California African American Museum (CAAM) facility. The Administration requested and the Legislature approved \$2.3 million for preliminary plans in 2007-08. The total General Fund cost inclusive of construction is estimated at \$43.6 million, which is 67 percent of the total project cost of \$65.4 million – the CAAM Friends Foundation would contribute the remaining \$21.8 million (33 percent).

Staff Comment: When construction phase costs are considered, this project will have total General Fund costs of \$41.1 million over the 2008-09 to 2009-10 period. In November 2007, the Department of General Services (DGS) halted development of a new office building in Sacramento for the Resources Agency. The DGS press release said, “*DGS determined that it is not in the best interests of the state and the parties concerned to continue with a project of this magnitude during this period of financial uncertainty when funds have not yet been allocated.*” The CAAM project differs in that funds have been allocated in 2007-08 for preliminary plans and the project will be supported with 33 percent private-sector funding. However, the Subcommittee may want to hear from the Administration on the advisability of proceeding with this \$43.6 million General Fund project at the current time.

Staff Recommendation: Keep this issue open.

<i>Action: Held issue open. CAAM will provide additional detail on its fundraising plan.</i>

1110 Contractors' State License Board

The Contractors' State License Board (Board) licenses contractors and enforces licensing laws; provides resolution to disputes that arise from construction activities; and educates consumers so that they make informed choices. The Board licenses or certifies contractors in 44 classifications (e.g. plumbing, electrical, general building, etc.) and registers home improvement salespersons.

The Governor proposes expenditures of \$60.7 million (no General Fund) and 413.1 positions for the Board – an increase of \$2.9 million and 6.5 positions. The Governor's Budget reflects a healthy balance in the Contractors' State License Fund – with a balance projected at \$25.6 million at the end of 2008-09.

Proposed Vote-only / Consent Issues

1. **Continue 11 limited-term Enforcement Staff (BCP #1110-06).** The Administration requests \$919,000 (special fund) to continue, for two years, 11.0 limited-term enforcement positions.

Background / Detail: The Legislature approved 11.0 limited-term positions in 2005-06 as part of the Economic and Employment Enforcement Coalition (EEEC) which is a cooperative effort that also includes the Department of Industrial Relations, the Employment Development Department, and the federal Department of Labor. The Board cites an increase in complaints investigated of about 1,500 annually and an increase in complaints forwarded for prosecution of about 225 annually. The Administration indicates it will improve its existing offender tracking and develop better estimates of secondary General Fund impacts (from improved employer compliance with tax withholding, etc.) and should be able to provide a more complete picture of results in two years time.

2. **Add 7 permanent Enforcement Staff (BCP #1110-07).** The Administration requests \$758,000 (special fund) and 7.0 new positions to open a third enforcement office in the State – this one in Fresno.

Background / Detail: Administration indicates that there are currently two Statewide Investigative Fraud Teams (SWIFT) units – one in Sacramento serving northern California and one in Norwalk serving Southern California. This proposal would add a third office in Fresno to improve enforcement in the Central Valley. This proposal would increase enforcement statewide, as employees currently traveling to the Central Valley for enforcement would be redirected to other areas in California.

Staff Recommendation: Approve these budget requests.

Action: Approved the vote-only issues on a 2 – 0 vote.

Discussion / Vote Issues

- 3. Outreach and Advertising (BCP 1111-01).** The Administration requests \$1.3 million annually for three years to establish a pilot program to conduct a public awareness media campaign. The program would educate consumers on the risks of conducting business with unlicensed practitioners and service providers and educate unlicensed practitioners on the requirements and benefits of licensure. The Contractors' State License Board would actually only fund \$670,000 annually, with the remainder shared by other Boards and Bureaus (for example, the Board of Pharmacy's Budget includes an augmentation of \$27,000 to fund its share of this proposal).

Staff Comment: Through a February 27, 2008 Section 28.5 letter, the Administration requested increased expenditure authority of \$1.0 million (special funds) for 2007-08 to implement an outreach and advertising campaign to inform consumers about their rights and options related to home mortgage foreclosure. The Joint Legislative Budget Committee (JLBC) approved the request. Given that this BCP requests is a second advertising campaign on top of the mortgage foreclosure campaign, and given the overall budget situation, the Subcommittee may want to consider the rejection of this BCP. If this BCP is rejected, the Administration could resubmit it next year and present the results of the home-mortgage effort as a measure of the Department of Consumer Affairs' success with outreach and advertising campaigns.

As an additional consideration, the general direction from the Full Budget Committee is to defer or eliminate new programs and initiatives.

Since the Section 28.5 letter for home mortgage outreach has not been discussed at a public hearing, the Subcommittee may want to hear from the Department of Consumer Affairs on that effort.

Staff Recommendation: Reject this BCP. Note, rejection of this request would reduce the budget, not only of the Contractors' State License Board, but of all Boards and Bureaus that had been included in this proposal.

<i>Action: Rejected request on a 2 – 0 vote.</i>

8780 Milton Marks “Little Hoover” Commission

The Little Hoover Commission on California State Government Organization and Economy conducts four to five comprehensive reviews of executive branch programs, departments, and agencies each year and recommends ways to improve performance by increasing efficiency and effectiveness. The Commission, which was established in 1962, analyzes and makes recommendations to the Legislature on government reorganization plans.

The Governor proposes expenditures of \$941,000 (primarily General Fund) and 8.8 positions for the Commission, a decrease of \$98,000 and no change in positions. The Administration did not submit any Budget Change Proposals for the Commission. Included in the budget, is a reduction of \$104,000 to help close the State’s General Fund deficit and that would result in a positions being held vacant for five months, and operating expense cuts in travel, printing and other areas.

Discussion / Vote Issues

- 1. Role of the Commission (Staff Issue).** Given the range of dramatic budget cuts under discussion across budget areas, the Subcommittee may want hear from “study / advocacy” entities on their size and structure. The Commission should be prepared to discuss the value of their output relative to other entities that provide direct and measurable services and benefits to the public. Additionally, the Commission should be prepared to discuss the reduction in effectiveness that would occur if the Commission were consolidated with another budget entity (if for example, the Commission were shifted into the California Research Bureau (or other existing entity), with all staff positions except the Executive Director being eliminated).

Staff Comment: The Subcommittee may want to briefly hear from the Commission on their role in State government and discuss opportunities for budget savings.

Staff Recommendation: Hold the budget open.

<i>Action: Held budget open.</i>

8820 Commission on the Status of Women

The Commission on the Status of Women serves to advance the causes of women; by advising the Governor and the Legislature; and educating its constituencies. The Commission was originally established as an advisory body in 1965.

The Governor's Budget proposes expenditures of \$531,000 (\$529,000 General Fund and \$2,000 reimbursements) and 4.6 positions – a decrease of \$11,000 and no change in positions. The Administration submitted one Budget Change Proposal to add \$43,000 and 0.6 positions, but a proposed budget reduction of \$59,000 would result in the 0.6 position not being added plus an additional operating expense reduction of \$16,000 that would reduce travel and printing.

Discussion / Vote Issues

- 1. Role of the Commission (Staff Issue).** Given the range of dramatic budget cuts under discussion across budget areas, the Subcommittee may want hear from “study / advocacy” entities on their size and structure. The Commission should be prepared to discuss the value of their output relative to other entities that provide direct and measurable services and benefits to the public. Additionally, the Commission should be prepared to discuss the reduction in effectiveness that would occur if the Commission were consolidated with another budget entity (if for example, the Commission were shifted into the Office of Planning and Research (or other existing entity), with all staff positions except the Executive Director being eliminated).

Staff Comment: The Subcommittee may want to briefly hear from the Commission on their role in State government and discuss opportunities for budget savings.

Staff Recommendation: Hold the budget open.

<i>Action: Held budget open.</i>

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor proposes total expenditures of \$56.1 million (no General Fund) and 459.2 positions, – a decrease of \$1.5 million and no change in positions. This change includes two large adjustments: (1) the Department received a one-time Office of Traffic Safety grant of \$1.5 million in 2007-08 that is not included in 2008-09, and (2) the budget reduces local grants from \$3.0 million to \$2.0 million. Additionally, the Administration proposes fee increase of 3.28 percent tied to the Consumer Price Index.

Issues proposed for Discussion / Vote:

1. **Fee Increase and Reduction to Local Assistance (BCP #2).** The Administration requests approval of a 3.28 fee increase. AB 1298 (Ch 488, St of 2001) increased ABC fees over a three-year period and authorized annual Consumer Price Index (CPI) fee increases effective January 1, 2005, via the budget process. However, ABC has not requested a CPI increase until this year. To further reduce the gap between revenues and expenditure, a reduction of \$1.0 million (from \$3.0 million to \$2.0 million) is proposed for grants to local law enforcement for programs that reduce underage drinking and increase the enforcement of liquor laws.

Background / Detail: The Department indicates that revenue grows about 2-percent each year from growth in the licensee population; however, the Department's costs have increased at a faster rate, and again, fees have not increased since January 2004. As cost drivers, the Department cites: unanticipated increases in personal services associated with the Bargaining Unit 7 contract; routine increased general operating expense; and increased funding for local grants in 2006-07 and ongoing (grants increased from \$1.5 million to \$3.0 million annually). Staffing has been relatively unchanged (plus 3.0 positions) over this period.

Staff Comment. The budget reflects that the Department had budget savings of \$1.8 million in 2006-07. Additionally the actual rate of vacancies is about 20 percent versus the 3 percent budgeted. However, some of the vacancy savings is redirected to additional overtime and temporary help. The Department should be prepared to discuss vacancy savings and the ability absorb the IT cost (see BCP below) and/or to score additional salary savings in 2008-09.

Staff Recommendation:

- (1) Approve the CPI fee increase.
- (2) Cut the ABC personnel-services budget by \$1.231 million on a one-time basis to incorporate a vacancy savings rate that better ties to current vacancies.
- (3) Restore local grants to \$3 million (a \$1.0 million increase relative to the proposed budget) to maintain local law enforcement for programs that reduce underage drinking and increase the enforcement of liquor laws. On net this would reduce the ABC expenditures by \$231,000 relative the Governor's Budget.

Action: Issue held open. The Department will provide the Subcommittee a corrected Fund Condition Statement and information on the redirection of vacant position savings.

- 2. Information Technology (IT) infrastructure Replacement (BCP #1).** The Governor proposes a one-time augmentation of \$231,000 (special fund) to replace about 15 percent of the Department's computers (\$141,000), to hire an IT Security Consultant (\$80,000), and to provide related training (\$10,000).

Background / Detail: The Department indicates that several of its computers are failing and that without replacement, support costs and employee output could suffer.

Staff Recommendation: Approve this BCP. Note, if the staff recommendation for issue number 1 is approved, this IT BCP would be essentially funded with redirected vacancy savings. On net, the ABC expenditures would be reduced by \$231,000 relative the Governor's Budget.

Action: Issue held open. The Department will provide the Subcommittee a corrected Fund Condition Statement and information on the redirection of vacant position savings.

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) was established effective July 1, 1997, to regulate depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad, and business and industrial development corporations. Programs are supported by assessments of the various industries, license and application fees, and charges for various other services.

The Governor proposes total expenditures of \$32.5 million (no General Fund) and 241.2 positions - an increase of \$3.5 million and 18.0 positions.

Issues proposed for Discussion / Vote:

- 1. Office Relocation and Lease Costs (BCP #1).** The Governor proposes a budget augmentation of \$1.1 million in 2008-09 and \$394,000 ongoing, to fund the relocation of the San Francisco office and higher lease costs. The Department is at the end of a fifteen year lease and must move. Statute requires DFI to be headquartered in San Francisco, but the Department is partially mitigating the high cost of real estate in San Francisco by shifting 10 staff to Sacramento, and reducing office space in San Francisco from 22,000 square feet to 18,000 square feet.

Staff Comment: The Department should discuss the benefit of retaining their headquarters in San Francisco versus moving to a lower-cost Bay Area location.

Staff Recommendation: Approve this budget request.

<i>Action: Approved the request on a 2 – 0 vote.</i>

- 2. Banking Program: SB 385 Implementation (BCP #1).** The Department requests an augmentation of \$128,000 (special fund) and one position to implement SB 385 (Ch. 301, St. of 2007) that requires financial institutions to comply with the federal guidance on nontraditional and subprime mortgage products. DFI indicates it will take approximately 16 hours to examine each licensee for compliance to the guidance, or 1,744 hours annually for the examination of banks.

Background / Detail: The Senate Floor analysis for SB 385 estimated DFI would need \$240,000 and 2.0 positions to implement the legislation. The Department indicates that they have requested 6.0 positions in the Credit Union Program for Subprime lending examiners that would allow DFI to address baseline workload issues as well as new SB 385 workload.

Staff Recommendation: Approve this budget request.

<i>Action: Approved the request on a 2 – 0 vote.</i>

- 3. Credit Union Program: Staffing Augmentation (BCPs #2, 4, & 5).** The Governor proposes a significant increase to the Credit Union Program with three BCPs that total \$2.2 million and 18.0 positions (relative to the base level of \$4.8 million and 36.3 positions). New staff resources would be allocated to improve examinations when reviewing: subprime lending (6.0 positions); electronic financial services (10.0 positions), and business loans (2.0 positions).

Background / Detail: Some Credit Unions are struggling with loan problems stemming from the housing market. This increases DFI workload as it must spend additional time reviewing loan transactions to determine if intervention is warranted. The other positions are driven by increased use of electronic banking that adds to DFI workload to examine data integrity and consumer privacy, and by the significant increase in the number and amount of member business loans that raises concerns about the ability of institutions to weed out problem loans and potential fraud. Included in the 18.0 positions is one Associate Information Systems Analyst to support information technology requirements.

Staff Comment: Statute sets a ceiling on Credit Union assessments at \$2.20 per \$1,000 of assets. DFI reports that the assessed rates in the past five years have been between \$0.747 and \$0.447. The staffing augmentation will likely affect assessed rates at some point, but assessments should stay well below the statutory cap.

Staff Recommendation: Approve this budget request.

<i>Action: Approved the request on a 2 – 0 vote.</i>

2180 Department of Corporations

The Department of Corporations (Corporations) administers and enforces State laws regulating securities, franchise investment, lenders, and certain fiduciaries. The budget is divided into two operating programs. The Investment Program is responsible for the qualification of the offer and sale of securities in California and the licensing and regulation of broker-dealers and investment advisers. The Lender-Fiduciary Program licenses and regulates California finance lenders, mortgage lenders, escrow agents, deferred deposit transaction entities (including “payday” lenders), and check sellers.

The Governor proposes total expenditures of \$40.1 million (no General Fund) and 313.1 positions, an increase of \$1.6 and 7.2 positions. The State Corporations Fund has an outstanding loan of \$18.5 million to the General Fund from the 2002-03 budget.

Last year over several hearings, the Subcommittee discussed the Department’s staffing and performance. The Administration responded to some of the issues raised by both the State Auditor and the Subcommittee by requesting 25.0 new positions via a spring Finance Letter. The Legislature added an additional 5.0 positions to fully address workload needs in the payday lending area. Bi-annual reporting requirements were added with last year’s budget. Data from two reporting periods indicate good progress in staffing – only 1 of 50 enforcement positions was vacant on January 1, 2008. Other performance metrics are included in the data, and over time, this will assist the Legislature in assessing the enforcement activity and staffing needs of the Department.

Issues for Discussion / Vote

- 1. Lender-Fiduciary Program: Staffing Augmentation (BCP #2).** The Administration requests a two-year limited term augmentation of \$500,000 (special fund) and 4.0 positions to address the sub-prime mortgage crisis. These positions will allow for stronger oversight through timely, routine examinations of lenders.

Background / Detail: Statute does not specify a minimum examination cycle, but the Department has established a minimum exam cycle of every four years. In 2000-01 through 2006-07, the number of licensees in the Program increased by 116.5 percent. Exams can find violations such as overcharging customers and failure to provide adequate loan disclosures. The Department’s analysis suggests that 13.0 new positions would be needed to achieve the four year exam cycle, so this proposal only mitigates and doesn’t solve the staffing shortfall.

Staff Comment: This BCP request further addresses concerns raised last year on the frequency of exams and the adequacy of staffing given the large growth in licensees. However, past analysis suggested these were ongoing issues that may take several years to fully address. The Administration should explain why the positions are limited term given that their analysis suggests an ongoing workload need of 13 new positions.

Staff Recommendation: Approve this request, but make the positions permanent instead of limited term.

Action: *Approved the requested funding and positions on a 2 – 0 vote, but changed the positions from limited-term to permanent.*

- 2. Investment Program: Staffing Augmentation (BCP #1).** The Administration requests a two-year limited term augmentation of \$500,000 (special fund) and 4.0 positions to address the sub-prime mortgage crisis. These positions will allow for stronger oversight through timely, routine examinations of broker dealers and investment advisors that sell collateralized mortgage obligations to the investing public.

Background / Detail: California has 261 licensed firms that sell collateralized mortgage obligations. In 2004-05 through 2006-07, the number of licensees in the Program increased by 46.5 percent. Exams can find fraudulent or unethical licensee, and increase protections for those who may buy collateralized mortgage obligations. The Department's analysis suggests that 48.0 new positions would be needed to achieve the four year exam cycle, so this proposal only mitigates and doesn't solve the staffing shortfall.

Staff Comment: This BCP request further address concerns raised last year on the frequency of exams and the adequacy of staffing given the large growth in licensees. However, past analysis suggested these were ongoing issues that may take several years to fully address. The Administration should explain why the positions are limited term given that their analysis suggests an ongoing workload need of 48 new positions.

Staff Recommendation: Approve this request, but make the positions permanent instead of limited term.

Action: *Approved the requested funding and positions on a 2 – 0 vote, but changed the positions from limited-term to permanent.*

2400 Department of Managed Health Care

The Department of Managed Health Care (DMHC) was established in 2000, when the licensure and regulation of the managed health care industry was removed from the Department of Corporations and placed in a new, stand-alone, department. The mission of DMHC is to regulate, and provide quality-of-care and fiscal oversight for Health Maintenance Organizations (HMOs) and two Preferred Provider Organizations (PPOs). These 94 Health Care Plans provide health insurance coverage to approximately 64 percent of all Californians. Recent statutory changes also make DMHC responsible for the oversight of 240 Risk Bearing Organizations (RBOs), who actually deliver or manage a large proportion of the health care services provided to consumers. Within the Department, the Office of the Patient Advocate helps educate consumers about their HMO rights and responsibilities.

The Governor proposes \$44.3 million (no General Fund) in total expenditures and 297.3 positions for the department – an increase of \$121,000 and no net change in positions.

Issue for Vote Only:

- 1. Health Plan Oversight Staff Increase (BCP #1).** The Department requests to continue 2.0 limited-term positions for another two years at a cost of \$196,000 to address workload related to the review of required health plan filing submissions.

Background / Detail: The Office of Health Plan Oversight reviews new license applications and regulatory filings. In 2006-07 the Legislature approved 9.0 permanent and 2.0 limited term positions to improve processing times for licenses and material modifications of existing plans. As a result of this staffing increase, review times have decreased. For example, material modifications of existing plans dropped from 116 days in 2003 to 67 days in 2007. The department feels review times will lengthen if these positions are not extended.

Staff Recommendation: Approve the request.

<i>Action: Approved the request on a 2 – 0 vote.</i>

Issue for Discussion

- 2. Update on Regulations and Budget Impacts (Staff Issue).** The Department is involved in the rulemaking process for several significant regulations. On March 5, 2008, the Office of Administrative Law rejected on procedural grounds, DMHC regulations related to timely access to health care services. The DMHC has also submitted new draft regulations related to unfair billing patterns (balanced billing) – these are actually more narrow regulations than the draft regulations under discussion over the past year that also addressed reasonable and customary payment and other issues.

Staff Comment: Both of these draft regulations project they would not have a fiscal impact on the Department, although it would seem they could affect the volume of certain complaints and dispute resolution requests. The Subcommittee may want to briefly hear from the DMHC on recent developments in the area of rulemaking and what impact these efforts might have on the Department's workload.

Staff Recommendation: Informational item – no action needed.

<i>Action: No action – informational only.</i>

Crosscutting Issue: Department of Motor Vehicles/ California Highway Patrol

The Department of Motor Vehicles (DMV) and the California Highway Patrol (CHP) are both primarily funded with revenue received in the Motor Vehicle Account (MVA). Due to a large operating deficit in the MVA, the Administration has proposed a \$11 increase in the annual vehicle registration fee. The DMV is available to discuss topics related to the vehicle registration fee, and the DMV and CHP are both available to discuss their respective department's expenditures out of the MVA and why a fee increase is deemed necessary.

- 1. Motor Vehicle Account Fee Increase (Governor's Budget).** The Administration proposes trailer bill language to increase the car registration fee by \$11 dollars per year and increase late fees. This is proposed to eliminate the operating deficit in the Motor Vehicle Account (MVA) and keep the fund solvent. The base car registration fee (including a California Highway Patrol (CHP) fee) is \$41 per vehicle – so the proposed increase would result in a new annual base fee of \$52. The Administration indicates that this fee level will increase revenues by \$385 million in 2008-09 (due to an October 2008 effective date) and about \$522 million in 2009-10 and thereafter.

Background / Detail: The MVA derives most of its revenues from vehicle registration and driver license fees. In 2007-08, those fees accounted for 90 percent of the estimated \$2.1 billion in MVA revenues. The majority of MVA expenditures support the activities of the CHP (69 percent), the DMV (22 percent) and the Air Resources Board (7 percent). While increases in the number of cars, license holders, and other factors, increase MVA revenues about five percent annually, expenditure have grown at a faster rate. The CHP's budget, for example, has grown at a rate of about nine percent annually. Some specific costs drivers are outlined in the bullets below:

- The number of CHP Officers has increased and a CHP Officers' contract tied salary to local law enforcement resulting in above-average salary increases – in 2002-03 there were 7,237 Officers at a cost of about \$540 million and in 2007-08 there are 7,617 Officers at a cost of about \$750 million.
- The CHP began a radio replacement project in 2006-07 that will cost about \$500 million to implement.
- The DMV is implementing several large information technology projects (see following issues), with a combined cost of about \$334 million.
- Various programs at the Air Resources Board have expanding, increasing MVA expenditures from \$62 million in 2002-03 to \$120 million in 2007-08. (Note: there was a \$15.2 million loan from the MVA to the Air Pollution Control Fund in 2007-08 for AB 32 implementation, but there is no ongoing MVA funding for AB 32 implementation).

An operating deficit has developed over the past few years and 2007-08 reflects revenues of \$2.1 billion and expenditures of \$2.4 billion. Without correct action, the MVA will become insolvent in 2008-09. Out-year pressure on expenditures may come from additional growth in the number of CHP Officers, possible expenditures to implement the Real ID Act, and risk from cost escalation of existing radio and information technology projects.

LAO Comments: In the *Analysis of the 2008-09 Budget Bill*, the Legislative Analyst indicates that the Administration's calculations overstate the revenue gain by about \$32 million annually, and additionally there is risk to the assumption that doubling the late fee penalty (from the current range of \$10 to \$100 to the new range of \$20 to \$200), will not reduce the number of late payments and therefore reduce the revenue benefit. The LAO believes the proposed fee increases would sustain the MVA through 2013-14 (assuming historical expenditures trends). The LAO cites additional short-term risk from a late budget, with every month's delay eroding the revenue benefit in 2008-09 by \$29 million.

Staff Comment: The Subcommittee should hear from the Administration on why this fee increase is proposed. Note, the LAO's Alternative Budget includes a proposal to shift \$130 million in Vehicle License Fee revenues from DMV to counties as part of a parole realignment option. If that alternative was adopted, it could result in the need to increase car registration fees by an additional \$4 per vehicle. However, that issue can be separately discussed in the context of corrections and rehabilitation.

Staff Recommendation: Approve this request.

Action: <i>Held open for further analysis.</i>

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of driver licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of \$958.3 million (no General Fund) and 8,249.2 positions, an increase of \$18.7 million and a decrease of 39.4 positions.

Issue for Vote Only:

- 1. Relocation to Leased Facilities - Various (BCP #1).** The Administration requests \$4.1 million (special funds) for a combination of one-time and ongoing costs related to moving into three new leased facilities. In 2009-10, there are additional one-time costs of \$1.1 million to complete the move, and in 2010-11 and thereafter ongoing costs related to these moves would be \$1.7 million. DMV indicates the moves are required to resolve critical service capacity deficiencies. Included in the 2008-09 funding is \$350,000 one-time to pay the Department of General Services for lease planning for additional moves that would be requested in future budgets.

Background / Detail: The three relocation projects are as follows:

- **Lompoc Field Office:** Establish a replacement facility for the existing Lompoc Field Office at a cost of \$1.6 million over three years.
- **Central California Consolidated Telephone Service Facility:** Establish a consolidated facility to replace existing locations in Campbell, Fresno, and Oakland at a cost of \$5.7 million over three years.
- **Bakersfield Drivers Safety Office:** Establish a new stand-alone facility in Bakersfield to move the Safety Function out of an existing Bakersfield location.

According to the 2008 California Infrastructure Plan, DMV occupies 98 state-owned facilities, 117 leased facilities, and shares an additional 12 facilities with other state agencies.

- 2. Relocation to Leased Facilities – Commercial Driver License Center (BCP #2).** The Administration requests \$517,000 (special funds) in 2008-09 and \$450,000 in 2009-10 and ongoing related to moving into a new leased facility in the Central Valley that will consolidate Commercial Driver License (CDL) functions in that region. DMV indicates that this will reduce the number of commercial vehicles using regular DMV field offices, which are not built or equipped to manage larger trucks.

Staff Comment: The BCP indicates that this is the first CDL consolidation of a total of five planned statewide. The other four consolidations would be requested in future BCPs. The overall goal is to eliminate CDL traffic at certain field offices, although a reduced level of CDL traffic at field offices would continue where no consolidated CDL facility was nearby.

- 3. Construction or Renovation of State-owned Facilities (BCP #2).** The Administration requests \$1.4 million (special funds) in 2008-09 for three capital outlay projects for state-owned facilities and an additional \$100,000 for Department of General Services planning for future projects. When future construction costs are added, the total costs for these three projects in 2008-09 through completion is \$18.5 million.

Background / Detail: The Administration generally submits three budget requests over multiple years to complete a State-owned capital outlay facilities project. The first step is preliminary plans, the second step is working drawings, and the third step is construction. The three projects and phases are as follows:

- **Oakland Field Office Reconfiguration (Preliminary Plans):** \$145,000 is requested for 2008-09. An additional \$2.2 million will be requested in the out-years to fund working drawings and construction. This project ties to the BCP in issue #1 to move consolidate the Oakland telephone service center into a new Central Valley facility. With the space opened up in the existing Oakland facility, the DMV would then reconfigure the second floor of the existing Oakland field office to house a DMV Business Service Center.
- **Fresno DMV Field Office Replacement Project (Preliminary Plans) –** \$912,000 is requested for 2008-09. An additional \$12.9 million will be requested in the out-years to fund working drawings and construction. This project will replace the existing facility at 655 West Olive Avenue that is 46 years old and is deficient in size and does not comply with current safety and accessibility codes.
- **Stockton Field Office Reconfiguration (Working Drawings):** \$310,000 is requested for 2008-09. The Legislature approved \$309,000 for preliminary plans for this project in 2006-07. Construction costs are estimated at \$2.9 million. Separately, a new Stockton field office is being constructed, and this BCP converts the existing facility (at 710 North American Street) into a stand-alone driver-safety office.

According to the 2008 California Infrastructure Plan, DMV occupies 98 state-owned facilities, 117 leased facilities, and shares an additional 12 facilities with other state agencies.

Staff Recommendation on DMV Vote-Only Calendar: Approved the requests.

Action: Approved all vote-only issues on a 2 – 0 vote.

Issues Proposed for Discussion / Vote:

4. **AB 462 Implementation (BCP #5a).** The Administration requests \$96,000 (special funds) in one-time funding to implement AB 462 (Ch 497, St. of 2007). Assembly Bill 462 authorized the owner of a passenger vehicle, 1969 model or older, to utilize previously-issued California license plates that correspond to the model year of the vehicle, and increased the application fee to \$45.00. The requested augmentation would fund consultant costs and data center costs for information-technology programming modifications.

Staff Comment: The final Legislative bill analysis for AB 462 had estimated programming costs of \$88,000 and ongoing administrative costs of \$50,000. However, the DMV has only requested the one-time costs with this BCP – indicating that there are no ongoing implementation costs. Since AB 462 adds additional vehicle model-years to the program (1963 – 1969), additional revenue from new applications is anticipated to fully cover the cost of implementation. There are currently about 150,000 vehicles in the program and if 2,200 new applications are received implementation costs would be fully covered in the first year.

Staff Recommendation: Approve this request.

Action: *Held open pending additional information from the DMV.*

5. **AB 808 Implementation (BCP #5b).** The Administration requests \$30,000 (special funds) in on-going funding and 0.6 position to implement AB 808 (Ch 748, St. of 2007, Parra). Assembly Bill 808 requires applicants for driver license to sign a declaration that would acknowledge being advised that they could be charged with murder if the death of another person results from their driving while under the influence of drugs or alcohol. The requested augmentation would fund 0.6 positions of workload spread over all DMV offices to address the customer questions related to the new requirement.

Staff Comment: The final Legislative bill analysis for AB 808 had estimated no costs to DMV related to the implementation of this bill.

As an additional consideration, the general direction from the Full Budget Committee is to defer or eliminate new programs and initiatives. Unlike AB 462, this bill does not include new revenue to fund the cost of the new program. If the BCP is rejected, the Administration would not be prohibited from funding this new activity with redirected budget resources.

Staff Recommendation: Reject this request.

Action: *Rejected request on a 2 – 0 vote.*

- 6. AB 1165 Implementation (BCP #5c).** The Administration requests \$490,000 (special funds) in one-time funding and \$89,000 and 1.4 position ongoing to implement AB 1165 (Ch 749, St. of 2007, Maze). Assembly Bill 1165 authorizes law enforcement to issue a notice of suspension and impound the vehicle of a person who is found driving while on probation for a prior alcohol offense if that person has any measurable amount of alcohol in his or her blood. The requested augmentation would fund consultant costs and data center costs of \$434,000 for information-technology programming modifications and \$11,000 for printing (both one-time), and ongoing funding of \$89,000 and 1.4 positions for workload.

Staff Comment: The final legislative bill analysis for AB 808 had estimated one-time costs of \$542,000 and ongoing costs of \$12,000 for DMV to implement this bill (for computer programming and ongoing printing costs), and \$88,000 for DMV staff workload. Relative to the bill analysis, the BCP requests about \$108,000 less for computer programming. The BCP indicates that the staff workload would result from an estimated 1,200 additional individuals requesting a DMV administrative hearing.

As an additional consideration, the general direction from the Full Budget Committee is to defer or eliminate new programs and initiatives. Unlike AB 462, this bill does not include new revenue to fund the cost of the new program. If the BCP is rejected, the Administration would not be prohibited from funding this new activity with redirected budget resources.

Staff Recommendation: Reject this request.

<i>Action: Rejected the request on a 2 – 0 vote.</i>

- 7. Federal REAL ID Act.** On May 11, 2005, President Bush signed H.R. 1268, which includes the Real ID Act of 2005. In 2006, the DMV estimated implementation of Real ID would cost the State \$500 million to \$750 million. Final regulations from the federal government on the implementation of Real ID were released on January 11, 2008. The Department should update the subcommittee on the final regulations and the impact they will have on California.

Background / Detail: In 2006-07 the Administration submitted, and the Legislature approved, \$18.8 million for information technology improvements and planning activities to improve DMV's customer service and data collection – all related to Real ID. The Legislature added budget bill language specifying that the funding did not implement Real ID for California, but rather improved efficiencies at the DMV to facilitate implementation at a later date, should enacting legislation be approved. In 2007-08, no budget changes were requested related to Real ID, although the Legislature did add a quarterly reporting requirement. The Administration did not request any budget changes for Real ID in 2008-09. Real ID will cause inconvenience for California driver license holders, because most people will have to go to a DMV field office to re-verify their identity. Upon full implementation, Real ID will require people without a passport to have a compliant driver's license or identification card in order to enter a federal building or cross an airport checkpoint.

Final Federal Real ID Regulations: The final regulations differed in significant ways from the draft regulations. Most significantly, States have until 2017, instead of 2013 to fully comply with the Real ID Act. The final regulations allow states to apply to delay initiation of Real ID (i.e. begin the issuance of compliant ID cards) from May 2008 to December 2009 – DMV indicates it has already applied for, and received approval of, this extension. As a condition of receiving a second extension to May 2011, States must certify that certain “benchmarks” have been met.

LAO Comments: In the *Analysis of the 2008-09 Budget Bill*, the Legislative Analyst makes the following points:

- The regulations provide no guidance to states on how to establish several national databases to verify identity documents that would be needed to implement the Act.
- Real ID privacy concerns are not fully addressed in the regulations – for example future legislation may be needed to address third-party use of personal information included in the machine-readable ID card.
- There is no serious federal plan to fund the full implementation cost of Real ID.
- The DMV should report on its revised implementation plan and costs.

DMV Letter to Department of Homeland Security Secretary Chertoff: On March 18, 2008, the DMV sent a letter to Secretary Chertoff indicating that California's request for an extension to December 2009 is not a commitment to implement REAL ID. The letter cites the State's concerns over: the absence of adequate

federal funding; the lack of specificity regarding how to protect and secure personal information; and the design and support of required electronic verification systems that are critical to the program.

Staff Comment: The DMV should speak to each of the points raised by the LAO and their recent letter to Secretary Chertoff. Additionally, the Department of Homeland Security has approximately \$80 million in federal funds available for state grants and has a deadline of April 4 for applications. The DMV indicates it intends to apply for federal funding, but at the time this agenda was finalized, couldn't describe the amount or nature of its request. The DMV should update the Subcommittee on its application for the federal Real ID grants.

The Administration did not submit any BCPs for 2008-09 related to Real ID, and given the implementation extensions in the final regulations, the Administration may not submit any Spring Finance Letters related to Real ID. However, if the DMV does receive a federal grant, they will likely submit a Section 28.00 letter to expend the funds. Since the grant application is April 4, the Subcommittee may want DMV to report at a subsequent hearing on their final grant proposal and the amount of funding requested.

Staff Recommendation: Keep issue open – the Subcommittee may want a further update from DMV at a subsequent hearing.

Action: Held issue open and asked the DMV to update the multi-year estimate of Real ID implementation costs prior to the next hearing. Requested that the level of detail be at, or above, the detail level of the estimate provided two years ago. Also, ask the DMV to report on its planned use of biometric technology with or without the implementation of Real ID.

- 8. Information Technology Modernization (Governor's Budget).** The Administration requests 2008-09 funding of \$32.6 million (various special funds) for year three of the Information Technology Modernization (IT Modernization Project). Previously, the Legislature approved \$2.1 million for 2006-07 and \$23.9 million for 2007-08. The overall project has a cost estimate of \$242 million. Additionally, the Legislature added an annual report requirement during the life of the project.

Detail / Background: The DMV indicates it will take a multi-year incremental approach with “modular” progress – the intent is to migrate existing functions over to the new system over time such that some benefits are realized prior to full implementation, and risk is reduced. The incremental program would involve the separate migration of the drivers’ license database and then the vehicle registration database. The new database would maintain a link to the old while several hundred software systems that need to be updated are shifted from the old to the new database. The incremental approach to this project (which may mitigate risk) is partly motivated by an unsuccessful DMV IT modernization project in the mid-1990s. If project costs escalate, or if implementation problems arise, the Legislature could decide to limit funding and direct the DMV to re-scope the project to focus, for example, on just the drivers’ license database.

Staff Comment: The first annual report included the good news that the winning bid for the primary vendor came in at \$75.9 million – which is \$49.5 million less than the project estimate. The winning bid was from Electronic Data Corporation and EDS Information Services LLP. While the final procurement was completed five months behind schedule, awarding a contract is a major milestone that sometimes can be drag for years due to disqualified bidders or litigation by losing bidders. The Administration indicates that they will be doing a Special Project Report to but that this may not be completed until July.

Staff Recommendation: No action is necessary because full funding for this project was approved last year. However, the Special Project Report will allocate the cost savings across fiscal years, and this new expenditure plan should be reflected in next year’s budget for 2009-10.

Action: No action taken - informational.

9. Overall IT Portfolio (Informational). The DMV has a challenging number of medium to large information technology IT projects that were approved for funding in prior years and are underway. Excluding IT Modernization (discussed above), there are six other projects ongoing with a total budgeted cost of \$92 million. The list below indicates the other major projects with costs and updated completion dates:

- Driver License/ Identification/ Salesperson Contract (DL/ID/SP) – budgeted cost of \$11.4 million and current finish date of January 1, 2009.
- Document Imaging System Replacement (DISR) – budgeted cost of \$5.5 million (OK) and current finish date of February 8, 2008.
- International Registration Plan, (IRP) System Replacement – budgeted cost of \$11.1 million and current finish date of January 2, 2009.
- Web Site Infrastructure (WSI) / Expanded Name Field (ENF)) – budgeted cost of \$34.1 million and current finish date of September 29, 2008.
- Remittance System Replacement (RSR) – budgeted cost of \$8.0 million and current finish date of January 2, 2009.
- Telephone Service Center Equipment Replacement (TSCER) – budgeted cost of \$21.2 million and current finish date of July 31, 2008.

Staff Comment: While the largest DMV information technology challenges are still ahead, the department has achieved some success already – the Document Imaging System Replacement project and the Expanded Name Field segment of the WSI/ENF project have been completed. The DMV should be prepared to provide a brief overview to the Subcommittee of the status of this portfolio of projects.

Staff Recommendation: Informational – no action necessary.

Action: *No action taken - informational only. The DMV will also update information on planned project completion dates.*

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for State employees and property.

The Governor proposes \$1.929 billion in total expenditures (no General Fund) and 11,195 positions for the CHP, an increase of \$49 million and 227 positions.

Issues Proposed for Vote Only:

- 1. Office of Fleet Administration – Interagency Fees (BCP #5).** The Administration requests an ongoing augmentation of \$382,000 (Motor Vehicle Account) to fund the Department of General Services (DGS) fleet asset management fee. This fee has been assessed on the CHP since 2006-07; however, the CHP has absorbed the fee in 2006-07 and 2007-08. The Subcommittee approved a similar BCP for Caltrans last year and the Administration is requesting an analogous funding increase for the CHP.
- 2. California/Mexico Boarder Commercial Vehicle Inspection - Staffing (BCP #6).** The Administration requests authority to make 14.0 administratively-established positions permanent. The positions would be funded with \$1.5 million in federal funds the State will receive to provide additional commercial inspection staff at the California/Mexico border to comply with added inspection and education efforts necessary as a result of the implementation of the North American Free Trade Agreement (NAFTA). Due to the uncertainty of federal grant funding, the CHP has been requesting federal spending authority through the Section 28.00 process and administratively establishing these positions each year. However, with the expected completion of a permanent Inspection facility for the Tecate area, and the on-going history of grant funding, the CHP is requesting permanent position and spending authority at this time.
- 3. Relocation to New Inland Empire Traffic Management Center (BCP #4).** The Administration requests an augmentation of \$1.9 million (\$265,000 ongoing) in Motor Vehicle Account funds for moving costs and higher lease costs at the new Inland Empire Traffic Management Center (IETMC). The CHP move its dispatchers will share this new facility with Caltrans to better coordinate incident management and emergency response. The new facility is build to an “essential services building” standard, which means it should stay fully operational in the event of a major earthquake, power outage, etc.

4. Construction or Renovation of State-owned Facilities (COBCPs #1, 3, 4, & 5).

The Administration requests \$4.0 million (Motor Vehicle Account) in 2008-09 for three capital outlay projects for state-owned facilities and an additional \$225,000 for Department of General Services planning for future projects. When future construction costs are added, the total cost for these three projects (in 2008-09 through completion) is \$32.3 million.

Background / Detail: The Administration generally submits three budget requests over multiple years to complete a State-owned capital outlay facilities project. The first step is preliminary plans, the second step is working drawings, and the third step is construction. The three projects and phases are as follows:

- **Quincy Area Office – Replacement (Preliminary Plans):** \$692,000 is requested for 2008-09 for land acquisition and preliminary plan development. The Administration will likely submit a BCP for 2009-10 requesting \$416,000 for working drawings and a BCP for 2010-11 requesting \$10.5 million. Total project costs, including the future construction BCP request, are estimated at \$11.6 million.
- **Santa Fe Springs Area Office – Replacement (Working Drawings):** \$1.2 million is requested for 2008-09. The Legislature approved \$6.3 million for preliminary plans and land acquisition for this project in 2007-08. Total project costs, including a future construction BCP request, are estimated at \$24.8 million.
- **Bishop Area Office – Reconfiguration (Design & Construction):** \$2.2 million is requested for 2008-09 to reconfigure the Bishop Area Office by expanding the CHP area into space formerly occupied by the Department of Motor Vehicles.

According to the 2008 California Infrastructure Plan, the CHP occupies 102 area offices, 25 communications centers, 8 division offices, and 39 other facilities including the Sacramento headquarters and West Sacramento academy.

Staff Recommendation on CHP Vote-Only Calendar: Approved the requests.

<i>Action: Approved all vote-only issues on a 2 – 0 vote.</i>
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Issues Proposed for Discussion / Vote:

- 5. Enhanced Radio System (Required Report).** The budget includes \$116.3 million for the 2008-09 cost of upgrading the CHP's public safety radio system. In 2006-07, the Legislature approved this five-year project that has total costs of about \$500 million. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. As part of last year's project approval, the Legislature required annual project reporting for the life of the project - due annually each March 1. At the time this agenda was finalized, the CHP report had not been submitted.

Staff Comment: The CHP should update the Subcommittee on the radio project.

Staff Recommendation: Keep issue open and direct staff to review the report when submitted and agendize this issue at a subsequent hearing as warranted.

<p><i>Action: Held issue open. The CHP will submit the required report and staff will bring this issue back on a future agenda if warranted.</i></p>

- 6. Officer Staffing Augmentation (BCP #1).** The Governor requests \$21.5 million (\$22.4 million ongoing) to add 70 uniformed positions, 11 uniformed management positions, and 33 non-uniformed support positions in 2008-09 (an additional 50 uniformed positions would be added in 2009-10 for a total increase of 120 Patrol Officers). Over the last two years, the Legislature has approved a staffing increase of 471 positions (360 Officers, 32 uniformed managerial, and 79 non-uniformed support staff). The CHP indicates that this year's budget requests would help address the continual increase in workload associated with population growth throughout the state. It is important to note, the Governor's Budget includes \$40 million in one-time savings from about 300 vacant officer positions in 2008-09 including those requested in this BCP (normally the budget does not include "salary savings" for Officer positions – meaning that it is assumed cadets are in the Academy to replace Officers as they retire so there are no vacancies in terms of budget).

Detail / Background: The need for additional CHP officers was discussed in several CHP reports and LAO analyses at the time the growth in staff began several years ago. Additional staffing was deemed particularly necessary in CHP divisions that had seen large increases in vehicle registrations and highway travel. One measure considered was the growth for vehicle collisions between 2000 and 2004. With staffing increases requested in this BCP, the number of Officers would be 6,493 in 2008-09 and 6,543 in 2009-10.

LAO Recommendation: In the *Analysis of the 2008-09 Budget Bill*, the Legislative Analyst recommends the Legislature reject this proposal because by CHP's own admission, they will be unable to fill all the existing Officer vacancies and grow staff to the level requested in this BCP. Additionally, the managerial and support positions requested to support the new officers would not be needed if the new Officers are not hired in 2008-09. Due to the existing \$40 million one-time budget adjustment for vacancies that offsets most of the \$21.5 million BCP cost, the LAO indicates only a \$4 million reduction to the Governor's Budget would be necessary if this BCP is rejected.

Staff Comment: The CHP has indicated that they may be able to marginally increase the number of new Officers graduating from the academy beyond that assumed in the Governor's Budget – the Governor's budget assumed 386 Officer vacancies in 2008-09, but the CHP may be able to reduce that to 373 vacancies. However, contingency vacancy funding of \$6 million is retained in the budget for new Officers (or reduced attrition) relative to expectations. The CHP disagrees with the LAO recommendation related to management and support staff, indicating that those positions address base deficiencies, and are not tied directly to the new Officer positions.

While the Legislature may want to add additional Officers with the 2009-10 budget, it is unclear why positions should be added in 2008-09 that cannot be filled. The CHP indicates that rejection of the BCP would slow the pipeline of recruiting and they may decide to reduce the May 2009 academy class pending approval of a staffing BCP

for 2009-10. However, slowing the pipeline and the reducing the academy class size in May 2009 would be a discretionary Administrative decision and not strictly dictated by the finalization of the 2009-10 budget.

While the requested support positions may be needed partially for base workload, that workload should also be offset by the vacant Officer positions.

If this BCP is rejected, it should be without prejudice to out-year requests for additional CHP Officers when the CHP would actually be able to grow the Officer ranks to the requested level.

Staff Recommendation: Reject this BCP, which when combined with the existing budget savings for vacancies only reduces appropriations by \$4 million.

<p><i>Action: Held issue open. The CHP will provide further information on the staffing assumptions.</i></p>

- 7. Budget Funding for Tactical Alerts (LAO Issue).** The Governor's Budget includes \$10 million to pay overtime in the event of tactical alerts. Following September 11, 2001, CHP officers were placed on 12-hour shifts, or "tactical alerts," to enhance preparedness. In 2002-03, the Legislature provided a budget increase of \$32.5 million to fund further tactical alerts and adopted budget bill language requiring that any unused funds revert to the Motor Vehicle Account.

Background / Detail: In 2003-04, the Administration reduced tactical alert funding through a baseline adjustment by a reduction of \$5.9 million and a redirection of \$1.8 million to cover workers' compensation costs. Additionally, the Administration removed the budget bill language that reverted the unspent amounts. In 2002-03, the CHP expended \$17.4 million for tactical alerts and in 2003-04 it expended \$3.2 million. In 2004-05 and 2005-06, the CHP did not track tactical alert costs. Last year, the Legislature restored the reversion language and cut tactical alert funding to \$10 million and added a December 31 report requirement for the use of tactical alerts in the prior year.

LAO Recommendation: In the *Analysis of the 2008-09 Budget Bill*, the LAO recommends that the Legislature eliminate the budgeted funding for tactical alerts. At the time the LAO did the *Analysis*, the December 31, 2007, report had not been submitted. Without the report to evaluate the budget need, the LAO argues there is no basis to justify the funding.

Staff Comment: The December 31, 2007, Tactical Alert report was submitted by CHP on March 7, 2008, and indicates there were no expenditures for tactical alerts in 2006-07. However, staff understands there were tactical alert expenditures in early 2007-08 associated with large fires. Given that tactical alerts are unused in some years and reporting is not timely, Staff recommends the following placeholder alternative budget bill language and budget treatment:

*2720-002-0044—For augmentation to fund tactical alerts for declared emergencies and immediate threats to public safety as determined by the Commissioner of the California Highway Patrol, payable from the Motor Vehicle Account.
.....(\$10,000,000)*

Provisions:

- 1. For the purpose of this item, a tactical alert occurs when officers are placed on 12-hour shifts to enhance emergency preparedness and emergency response.*
- 2. By December 31, 2009, the department shall report to the Joint Legislative Budget Committee on the activities funded by this item.*

The alternative would delete \$10.0 million from the main item of appropriation, delete related budget bill language, and add a new appropriation item that would allow expenditure up to \$10.0 million for tactical alerts. Since this is a separate item of appropriation, it would be separately identified in the three-year display in the January 10 Governor's Budget. The actual past-year expenditure for this purpose would also be included in the Governor's Budget. Note, this treatment is similar to

an emergency item in the Caltrans budget. Like the Caltrans item, this is reflected as a “non-add” – it is available for emergencies but is not budgeted as an expenditure.

Staff Recommendation: Approve the revised budget treatment for tactical alert funding, including “placeholder” budget bill language.

<i>Action: Approved revised budget treatment on a 2 – 0 vote.</i>
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- 8. Implementation of New Gang Program (Governor's Budget).** Near the end of last year's budget process (after the submittal of May Revision Finance Letters), the Administration requested a CHP budget augmentation of \$7 million to increase CHP support for local law enforcement in anti-gang activities. The Administration's "CalGRIP" request was made after the Subcommittee had completed its work and the budget augmentation was made in the Conference Committee. Since Sub 4 did not discuss this change last year, the CHP should be prepared to discuss the implementation of the program including expenditures to date in 2007-08 and what local initiatives were supported.

Staff Comment: The CHP should update the Subcommittee on its implementation of the anti-gang program. The program funds additional CHP overtime to allow patrolling of high gang frequency areas enforcing vehicle and penal code violations or working with specialized gang task forces. The CHP has entered into Memorandum of Understandings with 10 local governments so far:

Operational Area	Allocation
Oakland PD	\$ 559,000
Richmond PD	270,000
Fresno County	115,000
Monrovia PD	400,000
Desert Hot Springs PD	100,000
Monterey County	50,000
Ventura County	200,000
San Bernardino	155,000
San Benito	75,000
Los Angeles County	2,500,000
Total	\$4,424,000

CHP anticipates additional local government requests in the future, but in 2007-08 it is expecting only \$4.4 million of the \$7 million appropriated will be expended. The balance of \$2.3 million will revert.

As an additional consideration, the general direction from the Full Budget Committee is to defer or eliminate new programs and initiatives, and focus on core State responsibilities.

Staff Recommendation: No action is necessary on this issue; however, the Subcommittee may want to open this issue at a subsequent hearing to consider the appropriate level of ongoing funding in the context of overall budget priorities.

Action: No action taken, but the Subcommittee may further consider this issue at a future hearing.